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FOOD IN AMERICA

MAY 1, 1981
A BILL PUBLICATION

BUSINESS BAROMETER

WESTERN EUROPE:

Neighborhood restaurants	22.5%
Bars and pubs with limited menu	20.5
Full menu, including ethnic	19
Limited menu, including coffee houses	15
Snack places, including ice cream (no seating)	14
American-style fast food	6
Fine dining	1.5
Theme	1.5

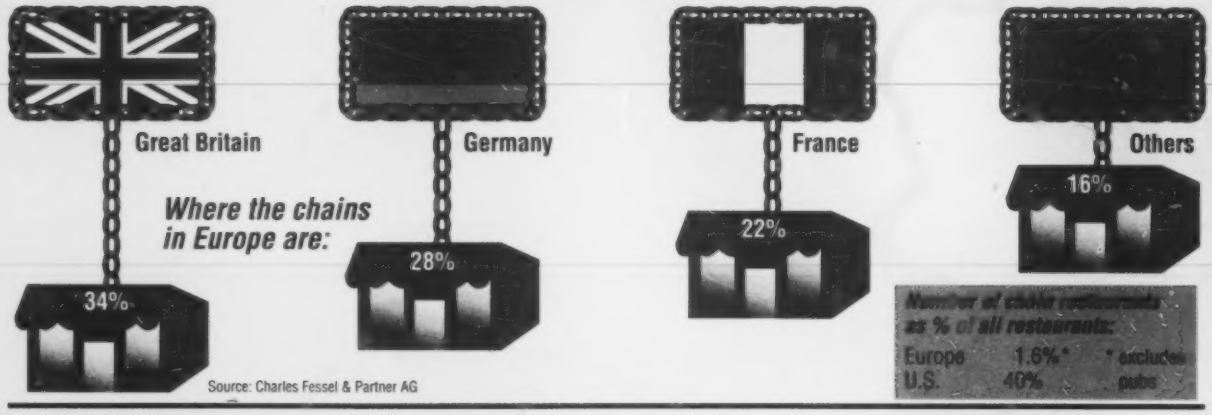
Existing Restaurant Share

Of the approximately 800,000 restaurants, pubs, and bars in Western Europe, many are neighborhood restaurants found in residential quarters owned by breweries and leased to individual operators. With a decrease in alcohol consumption, their numbers are expected to decline.

Source: Charles Fessel & Partner AG

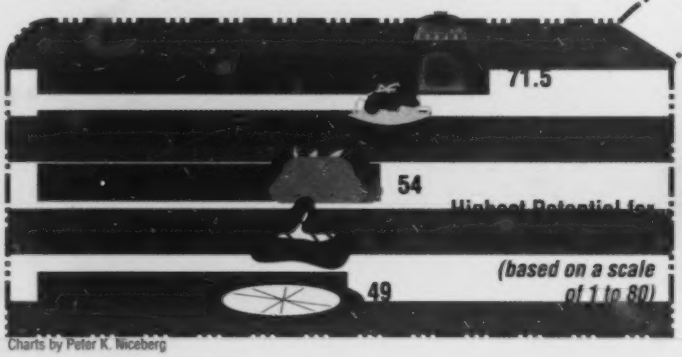
The Chain Scene

Compared to the U.S., Europe has an extremely small number of chain restaurants, indicating that there is great room for chain expansion.



Source: Charles Fessel & Partner AG

Calculations for growth potential for chain development in Europe over the next 10 years were based on such factors as projected financial success, guest acceptance, media publicity, popularity, and availability of raw materials.



Source: Charles Fessel & Partner AG

Charts by Peter K. Iwiceberg

RB CONTENTS

MAY 1, 1991 VOL. 90, NO. 7

COVER STORY:
Special Report: American Breadbasket.
RB pictures a day in the life of the national food chain. Page 205.

COVER STORY

SPECIAL REPORT AMERICAN BREADBASKET. This picture essay takes a journey through a day in the life of food in America.....205

FEATURES

MULTIUNIT OPERATOR THE DAILY GRILL. Robert Spivak, Dick Shapiro, and Mike Weinstock have spun off a downscaled version of their swank watering hole.....134

MENU TREND CASHEW CHICKEN. An American variation of this Chinese dish has been a hot item for over 20 years in Springfield, MO.....140

INDEPENDENT STAR STUBBY'S BBQ. Special sauce is the key to these two BBQ shacks in Hot Springs, AR.....146

INDEPENDENT STAR STELLA DEL MARE. Joseph Lucin owns two restaurants in New York City, with sales of $1 million last year in his fine-dining establishment, Stella del Mare, and $600,000 in the more clubby Portoroz.....153

INDUSTRY AWARDS IFMA'S SILVER PLATE. Profiles of the winners of this year's prestigious award, foodservice professionals in nine categories.....158

INDUSTRY EVENT HOTEL FORUM. At The International Forum of Corporate Hotel Food and Beverage Executives' spring meeting, held in Dallas at the Westin Galleria Hotel, Forum members and guest speakers looked at the impact of the Persian Gulf war and the recession.....176

RISK MANAGEMENT SERVICE AND LIABILITY. The way you treat your customers can determine how liable they are to bring civil lawsuits against your establishment.....190

WARES, ETC. FLATWARE. The heft and design of knives and forks affect customers' attitudes about the check average.....196

MARKET SEGMENT REPORT ICE CREAM & YOGURT. The ice cream and yogurt segment is in a period of transition, as overextended national chains and smaller regionals begin to feel the pinch of market saturation. New products lines are proliferating.....229

Cover illustration by Marvin Mattelson.

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FOOD AND BEVERAGE

MENU IDEAS VEGETABLES. Vegetables are starting to stretch out and feel real comfortable on virtually every restaurant plate 277

CHEF'S ART RISTORANTE VAPORE. In Tuscany, Italy, chef Cesare Casella serves tagliatelle al pomodoro, pecorino, and pepolino..... 284

PRO'S PANTRY VINEGARS. A look at the many varieties of this versatile condiment..... 287

PIECE MEAL GALETTES. This variation on the pizza has a cracker-like crust and simple-yet-rich toppings. 289

DRAFTS SPECIALTY DRINKS. Restaurateurs are aggressively designing and promoting signature items..... 293

COLUMNS AND DEPARTMENTS

BUSINESS BAROMETER 2

EDITORIAL 8

LETTERS TO THE EDITOR..... 14

RESTAURANT OPENINGS 20

INSIGHTS. Industry News 26

MENU PLANNERS GUIDE..... 62

CUSTOMER SERVICE..... 80

THE TAX BITE..... 86

COMPUTER LINK. POS Hardware..... 96

CALENDAR..... 104

TIPS 106

WORTH WRITING FOR..... 107

TEAM TACTICS 110

FOOD FACTS. Pesticides 115

MANAGEMENT..... 118

HUMAN RESOURCES..... 128

SANITATION. HACCP Programs..... 256

EQUIPMENT I.Q. Ice Makers..... 258

BUYER'S CIRCLE. Noteworthy Equipment 262

BAR MANAGEMENT GUIDE. Products for your bar..... 296

LATE LINE. Last-minute Newsbreaks 303

SOUND OFF..... 308

READER COMMENT CARD..... 309

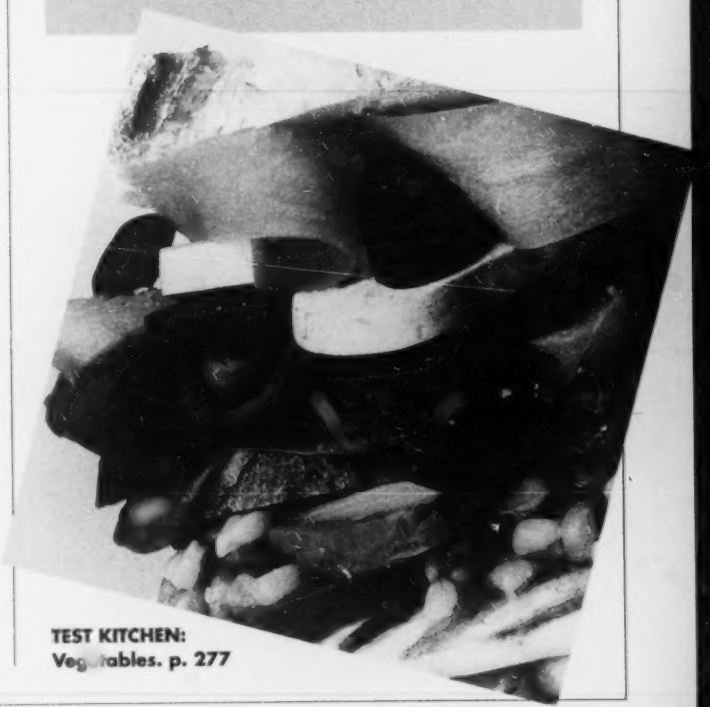
IN THE NEXT ISSUE

COVER STORY RB EXCLUSIVE. Casual-restaurant growth gurus Norman Brinker and Ron MacDougal are fashioning Chili's Inc. into the casual restaurant company of the '90s with three hot concepts and a brand-new company name and logo.

SPECIAL FEATURE RB LEADERSHIP AWARDS. This year's lineup includes seven most deserving industry leaders

MARKET SEGMENT REPORT PIZZA. This segment continues to grow—by some estimates it's a $20 billion market—with much of the growth being fueled by the convenience of delivery. The top three chains—Pizza Hut, Domino's, and Little Caesar Enterprises—are all growing so rapidly that many regional chains and independents are feeling the pressure.

DRAFTS, CARAFES, & SPIRITS LOW/NO-ALCOHOL. With increasing consumer concern about the effects of imbibing too much and DWI laws, it pays to be able to serve a few alternatives. This article offers recipes and merchandising tips.



TEST KITCHEN:
Vegetables. p. 277

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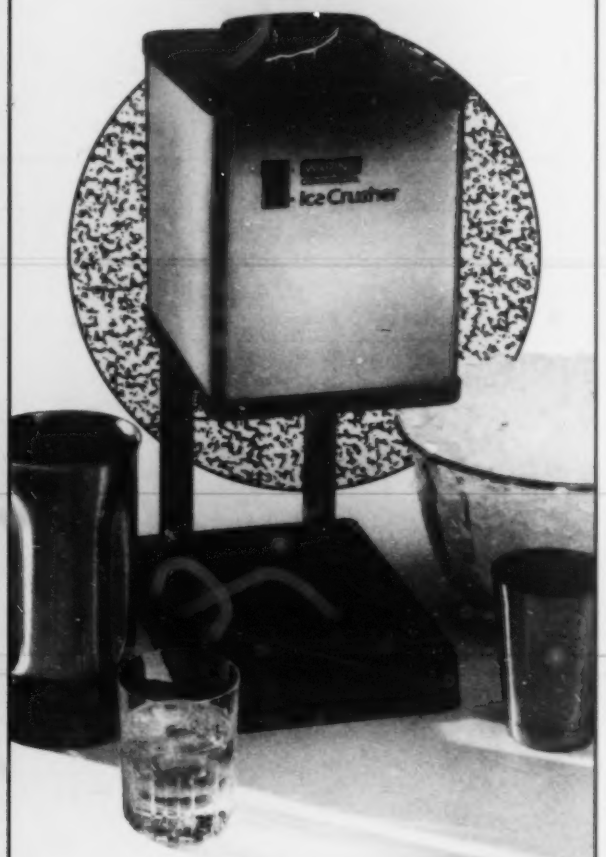

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Hotel News: Good and Bad

First, the good news: Despite the economic downturn in the hotel industry, hotel development costs increased only 1% in 1990. And in some parts of the country where the recession was more severe, construction costs for new hotel projects actually declined. For the first time in 15 years, one of the major development components—land costs—fell about 10%. The figures were compiled by Mineola, NY-based Hospitality Valuation Services Inc., based on its latest annual hotel development cost survey.

Now the bad news: Because of the recent overbuilding in the hotel industry, says president Stephen Rushmore, "No companies are developing. Therefore, this favorable increase is going unrealized."**–M.A.**

It's a Roli Boli

Malls are filled with new and different merchandise, and so are mall food courts. Take the Boli, served in Roli Boli units in several food courts on the East Coast. It's a rolled stuffed sandwich made with French bread dough—similar to a calzone. Customers choose stuffings from a "Boli Bar," and then the concoction is baked—in a Bolitron, naturally.

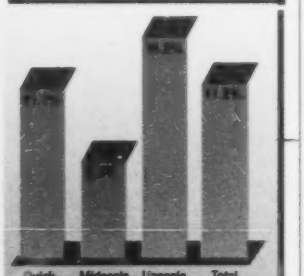
Roli Boli encourages the daunted to commit to its favorite three: the "Yuppie Boli," made with lobster, artichoke hearts, eggplants, asparagus, and mozzarella; the "Super Boli," with sausage, pepperoni, meatballs, mushrooms, peppers, onions, olives, and mozzarella; and the "Veggie Boli," which comes with spinach, mushrooms, onions, peppers, and mozzarella. They cost between $3.50 and $5.50.

"We live in an age of specialization," says Italian-born Roli Boli founder Anthony (Tony) Felicetta, 28. "We are going to be the next East Coast tradition—sort of like the Philadelphia steak sandwich." Felicetta's franchise chain is based in Sayreville, NJ. The first of five franchises opened last year. Eight more are slated to open by year's end.**–Marilyn Alva**

Tony Felicetta shows off the Boli sandwich in one of his Roli Boli units.

CHART BY SHARI FANG

4th Quarter Revenues, Public Companies



Revenues for publicly held restaurant companies tracked by Technomic Inc. rose 11.2% in the 4th quarter of 1990 versus the year-earlier period. The performance of the upscale segment was buoyed by the strong showing at Morrison's Ruby Tuesday's.

SOURCE: Technomic Inc.

Water Pinching In California

The well-publicized water shortage in parched California has taken its toll on restaurant operators, whose response to the crisis has varied by region.

Water problems are the most severe in the Central Coast areas and in Southern California, where the state recently cut water supplies to the City of Los Angeles by 50%.

In the Santa Barbara area, where the water shortage reached the critical stage two years ago, restaurateurs have had to develop contingency plans well ahead of operators in other parts of the state.

"We've become old hands at conserving water," reports Ed Galsterer, director of public relations for The Four Seasons Biltmore Hotel, a waterfront property in Montecito in Santa Barbara County. "We only provide water on request to patrons, and we don't run dish machines unless they are absolutely full."

In addition, instead of planting flowers and trees that have high water requirements, The Four Seasons has used plants, trees, and flowers that are native to the area and require less water to thrive.

At John Dominis Restaurant in Newport Beach, located in Orange County some 50 miles south of Los Angeles, office manager Kay Gagnan reports, "We serve water only on request, and we've stepped up our inspections for water waste in all areas: the rest rooms, kitchens, and laundry."

At California Pizza Kitchen, which operates 10 restaurants, most of them in the Los Angeles area, vice president Don FitzGerald says, "We've refitted the rest rooms with water-saving faucets, and fixed the toilets so they require less water as well. It is a real tightrope to walk because so much water is necessary for the proper operation of a restaurant."

Operators say customers are being supportive. "The whole issue has been so well publicized that people are willing to make sacrifices," says FitzGerald. "They generally don't ask for water unless they really need it."**–Kevin Farrell**

continued on page 44

In cups, cones, and sundaes, soft-serve, nonfat frozen yogurt is boosting sales at Dairy Queen units.

DQ: Frozen Yogurt and More

While the restaurant industry in general has been flat or down, Minneapolis-based International Dairy Queen (IDQ) stores experienced increased sales systemwide largely through a product it has not been traditionally known for: frozen yogurt.

The nonfat, cholesterol-free soft-serve frozen yogurt line was rolled into the system last year in more than 3,000 of 5,000-plus units. The yogurt is available in cones, cups, sundaes, waffle cones, and the signature Breeze, which is a yogurt rendition of the ice cream product, the Blizzard, with cookie and candy ingredients.

Financial results? Revenues for 1990 increased 11%, to $283.1 million from 1989's $255 million.

"We found that we attracted more customers as a result of the introduction," says Dairy Queen president Mike Sullivan. He said the chain has now started looking more closely at adding other healthy items, such as grilled chicken sandwiches and all-vegetable oil for fried foods.

Sullivan cited two other reasons for the increase: the first full year of the IMAGE (Improved Marketing and General Enhancement) program and the continued strategy of trying to increase profits in existing stores rather than building new ones. Dairy Queen began the IMAGE program in late 1988 to give franchisees special incentives to improve their facilities and increase marketing contributions. Incentives include partial rebates on service fees if sales increase in the store. So far, the program is operating in more than 350 units. Plans are underway to expand the program by the end of 1991.

While major emphasis is on existing stores, IDQ has also entered new markets through acquisitions and conversions.

For instance, the company signed a license agreement last September with Louisville, KY-based Druther's International Inc. that facilitates the conversion of Druther's restaurants to Dairy Queens. About 100 Druther's are expected to be converted by the end of 1991. In addition, the first European Dairy Queen stores are opening this year in Italy.**–Lori Barker**

Finding Good Help: it's Getting Harder

Think it's been tough finding qualified applicants to fill entry-level positions? Most employers think it will be even harder to attract good workers this year than ever before.

That's the bad news gleaned from a survey just released by Innovative Management Concepts, a management consulting firm based in Louisville, KY, that specializes in strategies for recruitment and retention. Personnel and human resources representatives from 40 organizations, half of them employing more than 1,000 people, were surveyed to find out their perceptions about the current worker pool.

Although most respondents indicated that their hiring needs would be about the same as last year, fully 55% felt that openings would be harder to fill in 1991 than they were in 1990.

Among the most difficult slots to accommodate, according to survey results: unskilled, entry-level positions such as foodservice workers, along with secretary and clerical jobs.

Despite these problems, the survey also revealed that few employers are resorting to nontraditional recruitment techniques, such as direct mail, telemarketing, and radio and TV ads, relying instead upon walk-ins, classified ads, and employee referral for their personnel needs.

In addition to using a variety of sourcing methods, Catherine D. Fyock, president of Innovative Management Concepts, suggests executives employ the following strategies in dealing with employment needs and problems:

- Look to nontraditional markets, such as the aged and the handicapped;
- Track staff on a cost-per-hire and turnover basis to determine the effectiveness of recruitment sources; and
- Maintain an emphasis on recruitment and retention, rather than just replacement of employees.**–Joan Lang**

continued on page 48

1990 Monthly Sales Growth

DATA POINTS

	Fast Food	Restaurants
January	7.0%	-1.3%
February	12.8	1.6
March	11.8	3.6
April	7.5	2.5
May	9.8	3.1
June	9.4	4.8
July	7.3	5.0
August	7.5	6.8
September	2.4	5.3
October	2.8	4.3
November	3.3	5.7
December	4.0	4.4

For the first three quarters of 1990, fast-food sales growth outpaced that of restaurants; for the last quarter, however, restaurant sales growth surpassed that of fast food.

SOURCE: U.S. Department of Commerce/Technomic Inc.

CHART BY SHARI FANG

No Free Lunch

The free lunch is over. At least, it's over at two major hotel chains, Marriott Hotels & Resorts and Wyndham Hotels. Executives of the two chains announced at a recent gathering of the International Forum of Corporate Hotel Food and Beverage Executives that they were abandoning the traditional industry policy of free meals to hotel employees. There were noticeable comments of disbelief.

But William Hulbert, vice president of food and beverage operations for Marriott Hotels & Resorts, and Dieter Kadoke, regional vice president of food and beverage for Wyndham Hotels, defended their company's decisions as fiscally responsible moves.

Hulbert said Marriott's move came as a direct result of the chain's efforts to improve cash flow. Dallas-based Wyndham Hotels was searching for ways to cut expenses without touching "guest-related" services, explained Kadoke.

"How you do it is as important as what you do," says Hulbert.

According to Kadoke, the end to free meals went into effect last month, replaced by a meal program that charges employees approximately $2 each. The savings for 1991 should result in a hefty $2.5 million straight to the bottom line. "We feel the quality of the meals we provide for the employees will be worth the $2 we will charge," he says.

It is too soon to predict whether other major chains will follow suit. But if the two companies report substantial savings with little staff resentment, it will be hard to argue the case for free meals.–**Denise Brennan**

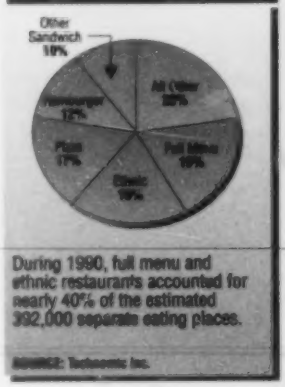
The Truth About Heavy Buyers

While conventional wisdom holds that "heavy buyers" (or "heavy users") are the target market of choice, Westport, CT-based Yankelovich Clancy Shulman (YCS) research reveals that they are frequently the worst targets to go after.

How's that? YCS says heavy buyers are often firmly attached to their favorite products or vendors and hold negative attitudes toward competing entries. Also, they fail to control the purchase decision in their household or corporation and are expensive to reach with mass media, direct response, and/or a sales force. Heavy buyers are so beleaguered with sales pitches from just about everyone that another (yours?) wouldn't likely make a difference.–**J.L.**

continued on page 59

1990 Share of Eating-Place Units



During 1990, full menu and ethnic restaurants accounted for nearly 40% of the estimated 392,000 separate eating places.

SOURCE: Technomic Inc.

CHART BY SHARI FANG

Women's Forum Plans National Conference

Women managers and those on the way up often experience difficulty in gaining recognition for their contributions and their value in the workplace," says Edna Morris, president of The Women's Forum for Foodservice Executives and senior vice president of human resources at Hardee's Food Systems Inc. "Our first annual AWARE Conference will examine this problem and make some concrete suggestions for solving it." AWARE stands for Advancing Women As Restaurant Executives.

The conference, which will be held in San Francisco, will open October 10 with a reception followed by networking dinners at women-owned restaurants. Participants will then be invited to attend four Career Advancement Sessions headed by speakers from the foodservice industry.

The conference will take place at the Sir Francis Drake Hotel at Union Square. Registration fee is $200 per registrant and $100 for each additional person from the same company. For further registration information, call or write: The Women's Forum for Foodservice Executives, National AWARE Conference, c/o *RB*, 633 Third Avenue, New York, NY 10017, 212-984-2330.–**Norma Vavoliza**

SOUND OFF TALLY

Does the restaurant industry burn out people?

The majority of our readers demonstrated through their responses that they think the restaurant industry does burn out people. For more reader input on this sensitive subject, see "Letters to the Editor," p. 14. Final results: ***YES!*** 66.6% ***NO!*** 33.3%

Reader comments:

NO! "I agree with Danny Meyer, proprietor of Manhattan's Union Street Cafe, when he says poor management burns people out. Managers who can't profitably operate a unit or units without working 70-plus hours per week don't belong in that position." (Mike Hartwick, franchise consultant, Freshens Premium Yogurt, Atlanta.)

YES! "I have been managing restaurants for 10 years, averaging 70 to 80 hours a week. I've had it! I am looking for a job in a related industry." (Name withheld upon request)

"Every company is different. Flexibility on work schedules and procedures would reduce turnover and burn out." (David Roszal, manager, Arby's, Hopkinsville, KY)

REPORT

ICE CREAM & YOGURT

Overexpansion has shaken up some chains.

By Jacque Kochak

The ice cream and frozen yogurt segment is in tumult. Well, at least part of it is. Ice cream chains and independents may be well-established and fairly stable, but the same cannot be said of their frozen yogurt counterparts.

In fact, the boundaries of the yogurt segment, though always porous, are disintegrating. As operators try to fend off intense competition, they're adding baked goods and even salads to their menus, while at the same time looking for new outlets in sporting arenas and employee cafeterias. Small regional chains are merging, larger chains are gobbling up competitors, and shops aplenty are being shuttered altogether.

The S-word—shake-out—is heard frequently among beleaguered yogurt executives. "People have been talking about a shake-out for four or five years, and it's happening," says Richard Nicotra, co-founder of New York's Everything Yogurt. "Those with good management and clear-cut marketing goals will survive."

While ice cream is perennially popular, all the recent excitement has focused on yogurt. In 1985, retail frozen yogurt sales amounted to less than $200 million; last year, they were said to top $1.2 billion.

Since the public's taste for frozen yogurt seems to be growing, you might wonder what the problem is. Actually, there are several.

First, as so often happens in franchising, overexpansion has occurred. Simply put, units have opened faster than demand has warranted. Franchising veterans say this is normal. "We're certainly not seeing the death of an industry, just a settling out that is completely normal in a quick growth franchising area," says Michael Seid, president of East Windsor, CT-based Malibu Magic Franchising Corp. "You either put your head down and weather the shake-out, or you look for new opportunities."

On the other hand, this "normal" growth phase has come right up against a recession. "Yogurt is recession-proof, but franchisees are not when the lines of credit and venture capital start drying up," says Ken White, president of Winston-Salem, NC-based Zack's Famous Frozen Yogurt.

Frozen yogurt is also a commodi-

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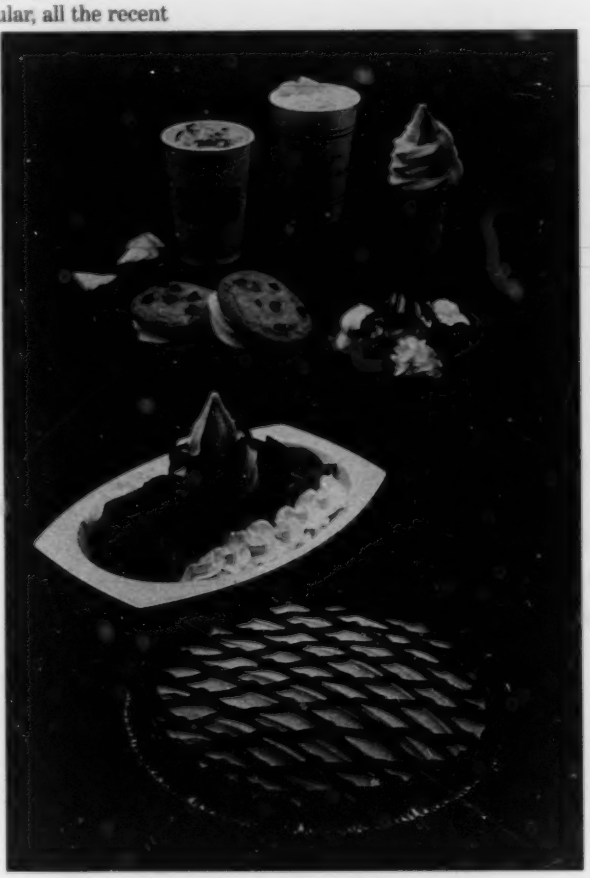


TCBY markets a variety of yogurt products, including shakes, sundaes, splits, novelties, pies, and cakes.

ty. You don't have to go to TCBY to get it; McDonald's has frozen yogurt, so does International Dairy Queen, perhaps even the local bake-shop. In fact, Oak Brook, IL-based McDonald's introduction of frozen yogurt—in its 9,000 units—has rocked the segment quite significantly.

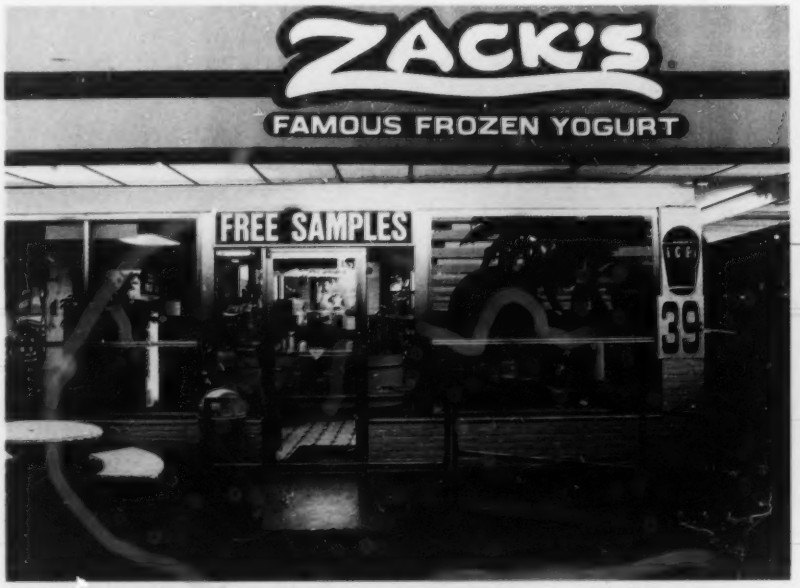
"I think McDonald's and Dairy Queen will expand awareness of frozen yogurt," says Mimi Hurst, vice president of communications for Little Rock-based TCBY. "We won't have to educate customers about frozen yogurt anymore. Now we can narrow our focus and work on differentiating TCBY's yogurt from everybody else's."

Others in the yogurt business aren't so sure the hamburger giant means to be so helpful to their cause. "In the real world, David doesn't slay Goliath very often," says Zack's White.

With 1990 sales of $2.2 billion, Minneapolis-based International Dairy Queen now has 65% of its 4,622 units selling frozen yogurt. The non-fat, cholesterol-free product is different from most, because a vanilla base is used. Into that base are blended fresh fruit and candy—such as strawberries, blueberries, or crumbled Heath bars—to make a Breeze. It's the same thing as a Blizzard, except ice cream is replaced by yogurt.

In test marketing, the Breeze met a requirement for producing 10% of dessert sales and 5% of overall sales, says IDQ vice president of marketing Gary See. The product, he adds, "held up very well over the winter."

IDQ settled on a no-fat product in order to differentiate the yogurt from its low-fat soft-serve ice cream. McDonald's frozen yogurt, by contrast, is 3% butterfat. "But people buy the Breeze because of the taste, not for nutrition," See insists.



Zack's Famous Frozen Yogurt is undergoing many changes, including new lighting, signage, and interior decor.

McDonald's introduction of a frozen dessert has rocked the segment.

To promote its frozen yogurt line, Dairy Queen has offered trial coupons and run generic advertising, but there has been no heavy discounting so far. Soft-serve sales continue to be strong, says See, with the Blizzard garnering the majority of advertising dollars. Since frozen yogurt was introduced, Dairy Queen has seen 6% sales increases in stores with yogurt, compared with 2% sales gains overall.

"There has been some cannibalization, and there will continue to be, but not as much as one might think because we're reaching a new base of customers," says See. Out of IDQ's 5,209 stores worldwide, only five are company-owned. Of U.S. stores, 1,128 are classified as soft-serve-only. Some 3,442 offer burgers, fries, hot dogs, and other fast food; 52 are Treat Centers, which combine Dairy Queen with Karmelkorn and Orange Julius in mall locations.

Because many Dairy Queen units are aging, the company provides incentive for remodeling, whereby franchisees can get a partial service fee rebate for increased sales resulting from a refurbishing. That might be anything from adding drive-thru windows or solariums to tearing the building down and erecting a new one. The incentive is offered on a market-by-market basis; 65% of all stores in a given market must agree to participate.

GROWING PAINS. TCBY Enterprises Inc., is the largest frozen yogurt specialist, with 1,847 franchised, licensed, or company-owned stores in every state and six foreign countries. Founded as a single Little Rock unit in 1981, TCBY sales reached $135 million last year, a 2% gain over 1989. Total systemwide sales increased 14% to $344 million, from $303 million in 1989.

But there's plenty of bad news here too. Franchising revenues declined 16% in 1990, and the company's net income was down 32%. Though 383 units

continued on page 234

opened in 1990, 118 failing operations were closed, netting the chain 265 new units.

Some of the decline in profit can be traced to high wholesale-milk prices, unusual weather patterns, and several unusual expenses. The more troubling part of the equation, however, was a decline in same-store sales in 1990. Last year, pressured into addressing franchisees' concerns, TCBY cooperated in forming The Country's Best Franchisee Association, a means of improving relations between the company and its 650-plus franchise groups. The result was a national television ad campaign, with franchisees having a say in selecting an agency (Grey Advertising was ultimately selected).

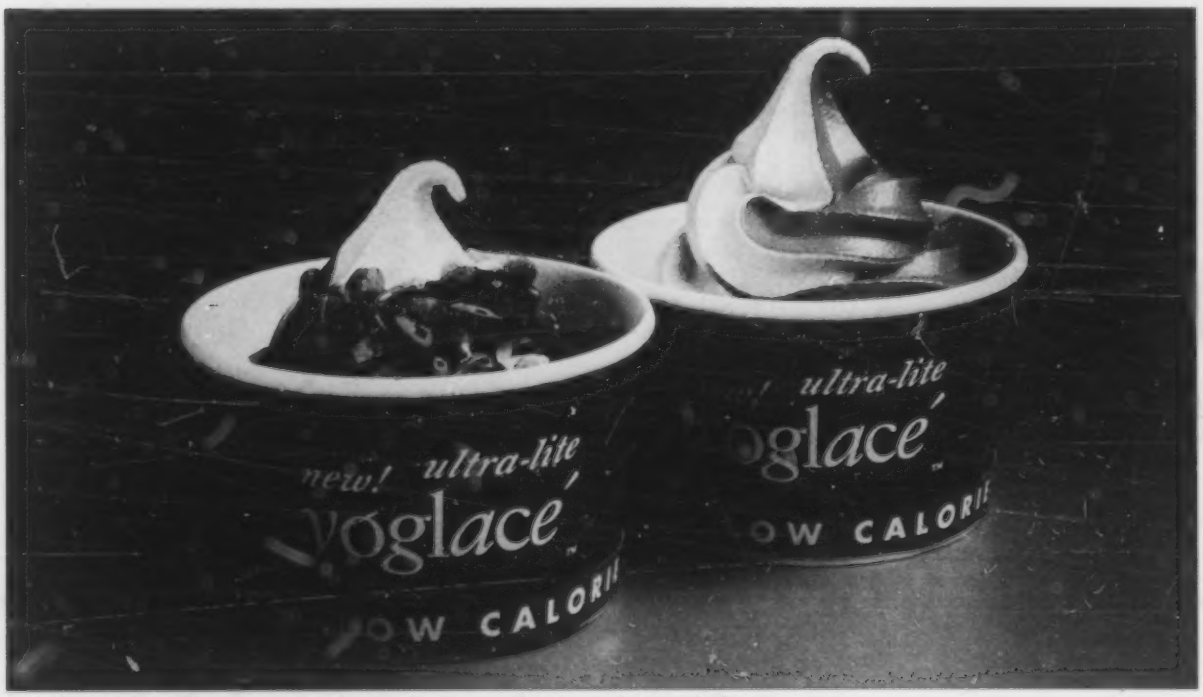
Where product is concerned, TCBY offers a soft-serve frozen yogurt in an array of flavors, including banana macadamia nut, white chocolate mousse, and cappuccino. Servings come in cups or hand-made waffle cones, with toppings ranging from fruits to nuts to candies. Also available are sundaes, banana splits, and the Shiver shake, with toppings blended into the cup of frozen yogurt. New products in 1990 included sugar-free, nonfat soft-serve frozen yogurt, gourmet frozen yogurt cakes, an expanded line of pies, and four versions of the new novelty Yog-A-Bar. TCBY began test marketing a soft-serve Ultra Slim-Fast product, and a new shake—made with TCBY nonfat frozen yogurt and Ultra Slim-Fast powder—was tested in January. The company is also seeking new sales outlets. In addition to marketing TCBY products through retail channels such as large grocery chains, the company is investigating the development of TCBY units in Sears and other retail chains, and outlets at sports arenas. Two Sears outlets are already open.

STAYING THE COURSE. Another active contender in frozen yogurt is Dallas-based I Can't Believe It's Yogurt. Founded in 1977 by Dallas college students Bill and Julie Brice, I Can't Believe It's Yogurt is now a 500-unit chain with systemwide sales of $70 million. Bucking segment trends, same-store sales are up 6% over last year, from $207,000 to $219,000.

Most chains have introduced new product lines.

Dan Corrigan, I Can't Believe It 's Yogurt's vice president of marketing and alternative distribution, offers several reasons for the firm's good fortune, one of which is a selective approach to

continued on page 236



I Can't Believe It's Yogurt's newest frozen dessert product has only 10 calories per ounce.

signing franchise and site agreements. In addition, seasoned executives have been hired to run the company. "Bill and Julie Brice made a philosophical commitment to bring in senior management because they knew times weren't going to get any better," says Corrigan, once the vice president of marketing for Dublin, OH-based Wendy's International. I Can't Believe It's Yogurt's chief operating officer, Rick Postle, was Wendy's executive vice president.

"There are a lot of frozen yogurt companies out there just hanging on by their fingertips," says Corrigan. "Their franchisees need more help than ever, but they just don't have the money." In contrast, I Can't Believe It's Yogurt this year has committed an additional $450,000 to its national marketing fund, above and beyond the 2% contributed by every store.

Smaller chains are merging or are being gobbled up by larger companies.

Early last year, I Can't Believe It's Yogurt upped its emphasis on marketing. In May, direct-mail pieces were sent to 34 million households, followed up by full-page color ads in *USA Today*. By the month, I Can't Believe It's Yogurt will have already mounted three national marketing campaigns in 1991, more than it did in all of 1990. "That's commitment and foresight," says Corrigan. "We think 1991 will be tough, but we started planning for it last summer."

I Can't Believe It's Yogurt's newest product is Yoglacé, a 10-calorie-per-ounce frozen dessert available in Belgian chocolate, Swiss vanilla, and Bavarian swirl. To complement Yoglacé, I Can't Believe It's Yogurt has also introduced a 125-calorie sundae made with low-calorie hot fudge and chopped nuts. Also new is a sugar-free chocolate chip topping.

Like others, I Can't Believe It's Yogurt is taking tentative steps into nontraditional markets. The company is providing frozen yogurt to coach passengers aboard select American Airlines flights. Currently offered on select dinner and light-lunch flights, the 3.5-oz. hard-packed frozen yogurt is available in vanilla with chocolate ribbon, chocolate with a marshmallow ribbon, strawberries and cream, and cookies and cream.

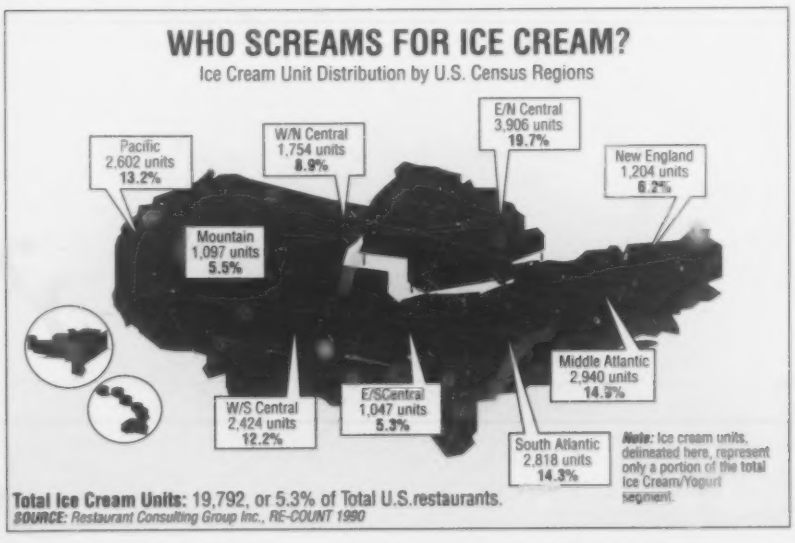
TURBULENT TIMES. Another contender in the yogurt fray, Staten Island, NY-based Everything Yogurt has 338 units in 38 states. Everything Yogurt, too, is working to strengthen its management team. Co-founder Richard Nicotra explains that, having brought the company to this level, "We think we need someone from the outside, someone with a different eye, to look at us and see how we can do better in the turbulent '90s." That somebody is the company's newest chief operating officer, Tom Romano, formerly president of Gino's Restaurant Division before it was sold to Marriott Corp.

"We're looking at the way we sell yogurt, the way we do toppings, the way we present our salads, and the overall corporate structure," says Nicotra. He insists Everything Yogurt is not experiencing difficulties, and that sales are up. The company will open 25 to 30 units this year. "Nevertheless, the '90s are going to be harder than the '80s. But that means different opportunities. Change is important."

Everything Yogurt boasts what are quite possibly the highest unit volumes in the frozen yogurt segment—sales are reported to average $400,000 per unit. One store, in midtown Manhattan, is said to post $1 million in sales annually. Nicotra attributes the chain's success to careful site locations and regular changes to the product mix. "Otherwise, we couldn't make it through the winters," he says.

In addition to frozen yogurt special-

continued on page 238



CHARTS BY SHARI FANG

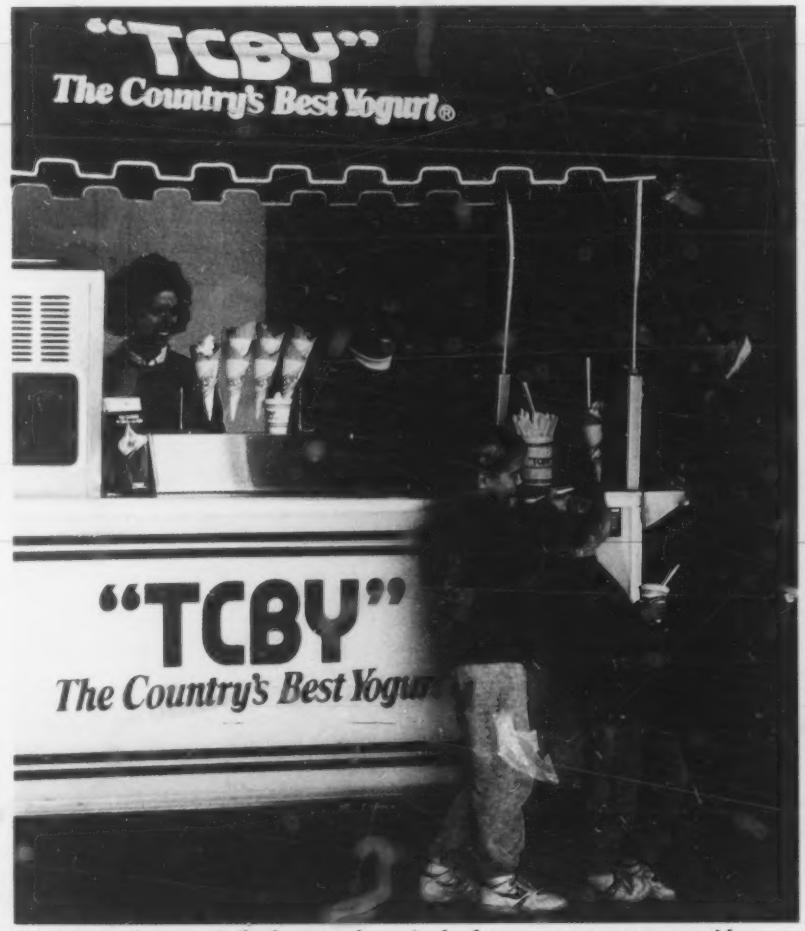
ties, the typical Everything Yogurt offers a full line of entree salads and quiches. Many units operate in tandem with another concept called Bananas, which offers fresh fruit drinks.

With some 200 units, Zack's Famous Frozen Yogurt is undergoing massive change. Formerly based in Metairie, LA, Zack's was purchased last March by its largest master franchisee. Company headquarters were moved to Winston-Salem, NC, in January.

"We were franchisees, so the first thing we did was sit down with other franchisees to ask them what they needed," says Zack's new president, Ken White. "They were looking at declining same-store sales and store closings. We had to give the franchisees the tools for success." Franchisees' ideas were pooled to create what the company calls a "super" Zack's, with gourmet coffees, baked goods, and a beverage bar. Signage has been revised, lighting changed, and interiors redesigned.

Also new is the Zmoothie, a frozen yogurt drink designed to double as a lunch or light dinner; it is directly aimed at health-conscious consumers. Made of frozen yogurt, fresh fruits, natural fruit juices, milk protein, amino acids, and complex carbohydrates, Zmoothies are available in a variety of calorie-counts. For example, the Challenger substitutes as a light lunch. Made from orange juice, bananas, honey, strawberries, turbinado sugar, yogurt, carbohydrates, and protein powder, the Challenger weighs in at only 212 calories. On the other end, the Hercules, with banana, egg, Weight Gain, turbinado sugar, protein powder, honey, pecans, brewer's yeast, and yogurt, weighs in at 859 calories and appeals to body-builders.

Five Zack's units have already been refurbished, with 15 more in progress. By the end of the year about 40% of all units will have completed their facelift, which costs less than $10,000 per unit. The changes, says White, have had a "frightening" impact. Sales, he says, are up 40% to 50% at some units.



TCBY Enterprises Inc. is the largest player in the frozen yogurt category with 1,847 units. The company is looking for new retail outlets such as this kiosk.

Zack's, too, is seeking nontraditional distribution channels. Through a pilot program in tandem with a Winston-Salem deli operator, Zack's is providing frozen yogurt to Sara Lee's employee cafeteria.

REGIONAL PLAYERS. The histories of a couple of smaller, regional frozen yogurt chains illustrate the challenges facing all operators today. One is Malibu Magic Franchising Corp., which oversees 100 franchised units primarily in the Northeast (some are in California and Florida). Established in the mid-'80s on the West Coast, Michael Seid acquired Malibu Magic in 1989. He set up a franchising company just in time for the shake-out.

While continuing to provide strong support to existing franchisees, Malibu Magic is diversifying into far more than the franchising of shops. A key part of this diversification is the leasing of product, equipment, training manuals, and signage to locations such as stadiums, ball parks, and restaurants. "I think that frozen yogurt will follow the

continued on page 244

same path that ice cream did," says Seid. "You can buy ice cream anywhere." Malibu Magic provides a base product flavored with either vanilla or chocolate, along with 57 concentrates for ease of inventory. The company is aggressively pursuing international franchising, with discussions underway as far away as Saudi Arabia and the Pacific Rim. Under the franchise agreement, Malibu Magic franchisees are allowed to provide equipment and product to local ballparks and stadiums.

Perkit's Yogurt, originally based in Atlanta, has also gone through major change. The 20 units, all franchised, were bought in August of last year by the 10-unit Ronzio's pizza chain, in Rhode Island. The company's president, Julian Angelone, says he eyed Perkit's because it had been touted as an up-and-comer experiencing difficulties. "Perkit's had a lot of problems," says Angelone. "There just aren't a lot of one-item companies doing well today." After buying Perkit's, Angelone closed 13 units. Now he's actively looking to merge with another company.

Supermarkets, selling packaged products, are now competitors.

ICE CREAM INNOVATORS. The history of the ice cream segment may provide clues to frozen yogurt's future: A few major companies are left, with strong regional chains and independent shops providing worthy competition. Among traditional ice cream purveyors—Glendale, CA-based Baskin-Robbins and Wilbraham, MA-based Friendly Restaurants come to mind—the emphasis is on product innovation as a means of staying competitive.

Baskin-Robbins operates 3,318 units—2,278 domestic, 1,040 international—almost all of them franchised. (Privately held, the company doesn't divulge sales.) Although the customer can get ice cream just about anywhere—with the major competition coming from supermarkets—they go to a Baskin-Robbins for the product and experience. Marilyn Novak, Baskin-Robbins' director of market services, sees a continued emphasis on "lite" frozen desserts, whether they be fat-free, sugar-free, or frozen yogurt.

The Bresler's ice cream chain now also offers frozen yogurt and low- and no-fat frozen dessert products.

Baskin-Robbins offers sugar-free and "lite" ice cream in all its stores, as well as low-fat and fat-free yogurt in 1,600 units. "The interesting thing we have seen is that when a store adds frozen yogurt, ice cream sales actually increase," says Novak. "Now there is something for everybody, and we see more and more families returning." The company introduced a low-fat product in 1987, a no-fat product and soft-serve sorbet in 1988, a sugar-free product in 1989, and a 97% fat-free product last year. Also available are novelty "lite" bars, novelty sundae bars, and new ice cream sandwiches called Chilly Burgers. The company's marketing theme this year is "Now There's More to Love Us For."

Friendly Restaurants, with sales of more than $500 million, has 800 company-owned restaurants. Friendly has been in business for 56 years and in

continued on page 246

that time has weathered a storm or two. Today, ice cream generates about 35% of sales, with the rest coming from lunch and dinner.

The most significant factor affecting Friendly is the new aggressiveness and skill with which supermarkets are promoting ice cream, says vice president of sales and marketing for the foodservice division John Sauve. In the past two years, Friendly has been selling prepackaged half-gallons through supermarket outlets, and in the last year that effort has increased. Today, Friendly ice cream is sold through some 1,000 supermarkets, mostly in the Northeast.

Retails sales of packaged products are a revenue source for some chains.

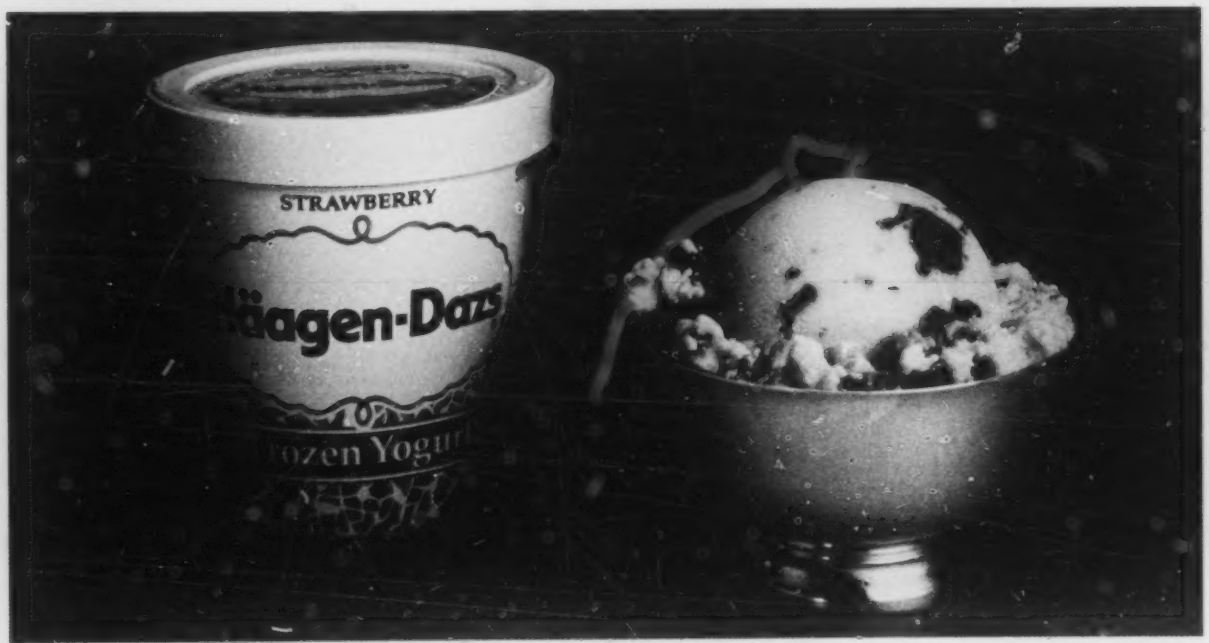
About 90% of all ice cream purchased for home consumption comes from the supermarket," says Sauve. "We want to increase our distribution network, and at the same time increase awareness of Friendly restaurants." The company is also looking at selling its product through established contract caterers. For example, slices of Friendly ice cream pie might be sold in employee cafeterias. Or, ice cream sundae cups can be sold at colleges and baseball stadiums.

Friendly continues to work with frozen yogurt (both low-fat and no-fat). The company's newest product is a line of pre-packaged half-gallon Ice Cream Shoppe Sundaes, which come very close to duplicating the flavors of popular sundaes. Sundae selections include Rocky Road, Heath Candy Shoppe, Fudge Nut Brownie, and Banana Royale. When the customer opens a half gallon of Banana Royale Sundae ice cream, he sees a band of what looks like strawberry ice cream, a band of banana-flavored ice cream, and a band of chocolate with walnuts. "He just adds whipped cream and a cherry," says Sauve. "Ice cream is a fun product. You've got to have fun with it. You've got to remain innovative and exciting."

SLEEPING GIANT. With 642 units and systemwide sales of $170 million, Yonkers, NY-based Carvel Corp. has been a sleeping giant for years. Founded by Tom Carvel, the company was acquired in late 1989 by Investcorp, a private investment firm with a reputation for turning troubled companies around.

While never in financial straits, Carvel has had serious problems both with franchisees and the New York Attorney General's office, which charged Carvel with forcing franchisees to buy all supplies from Carvel—at inflated prices. Those charges were never proven, and now

continued on page 248



Super-premium ice cream chain Häagen-Dazs now offers a line of super-premium frozen yogurt.

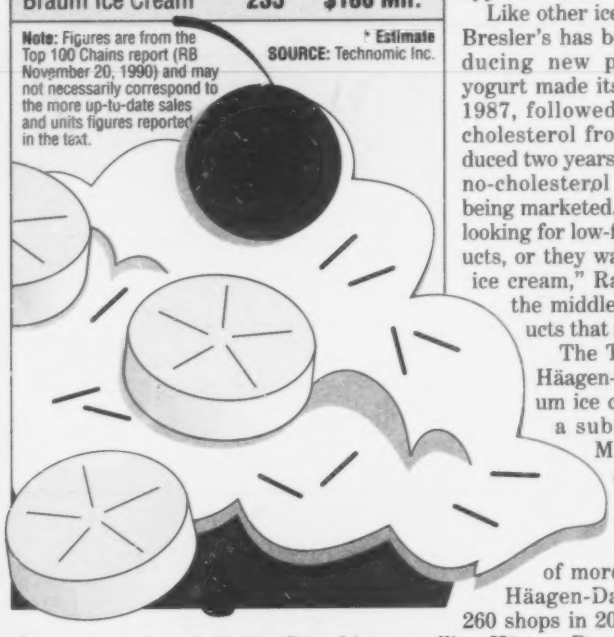
ICE CREAM & YOGURT

TOP ICE CREAM AND YOGURT CHAINS

	U.S. System Units	U.S. System Sales
Dairy Queen	4,627	$1.96 Bil.
Friendly	823	$572 Mil.
Baskin-Robins	2,354	$485 Mil.
TCBY	1,537	$303 Mil.
Carvel	710	$225 Mil.*
Braum Ice Cream	235	$180 Mil.*

Note: Figures are from the Top 100 Chains report (RB November 20, 1990) and may not necessarily correspond to the more up-to-date sales and units figures reported in the text.

* Estimate
SOURCE: Technomic Inc.



the emphasis is on bringing Carvel into the '90s.

A new management team is now in place. According to vice president of marketing Syl Sosnowski, the company is about to unveil a major repositioning to franchisees. Though he won't yet give details, Sosnowski says the repositioning involves a renaming of the business, a new interior and exterior design, and a completely changed focus.

Des Plaines, IL-based Bresler's is among the most solid ice cream chains. The company oversees 10 company-owned and 250 franchised units in over 30 states. (Privately held, the company does not divulge sales figures.) Expansion plans call for opening about 25 shops this year.

Mike Rapaport, director of marketing at Bresler's, claims that same-store sales had increased every quarter for the past five years—until the fourth quarter of 1990, when sales were flat. In the first quarter of this year, sales appeared to be on the upswing.

Like other ice cream purveyors, Bresler's has been actively introducing new products. Frozen yogurt made its entrance back in 1987, followed by a no-fat, no-cholesterol frozen yogurt introduced two years ago. Now, a no-fat, no-cholesterol frozen dessert is being marketed. "People are either looking for low-fat and no-fat products, or they want super-premium ice cream," Rapaport says. "It's the middle of the road products that are taking a hit."

The Teaneck, NJ-based Häagen-Dazs super-premium ice cream chain is now a subsidiary of Grand Metropolitan PLC, an international food, drink, and retailing company with annual sales of more than $17 billion. Häagen-Dazs operates some 260 shops in 20 states, as well as selling Häagen-Dazs products through grocery and other retail stores.

Although the shops currently account for only 8% of total Häagen-Dazs sales, vice president of marketing Yves Coleon says that the shops are viewed as a major component in building Häagen-Dazs' brand equity and reaching the consumer.

"We will develop shops aggressively over the next couple of years," Coleon says. "As we enter new markets, we will open more units to support our strategic marketing plan."

One segment challenge is seasonality.

He notes that 80% of existing units are located in New York City, Los Angeles, and Miami, giving the company plenty of room for expansion. In addition, the Grand Met strategy is to develop brands on a global basis, and Häagen-Dazs' expansion is being pursued aggressively in the Far East and Europe, according to Coleon.

The biggest news from Häagen-Dazs, which virtually created the market for super-premium ice cream a number of years ago, is the introduction of a super-premium frozen yogurt available through shops and supermarkets. Five flavors are available: vanilla, chocolate, strawberry, peach, and vanilla-almond crunch. Häagen-Dazs' frozen yogurt contains only natural ingredients, without any preservatives, artificial flavors, colors, or additives. The frozen yogurt is 96% fat free, with no stabilizers or gums to maintain the creamy texture.

Häagen-Dazs' aggressive expansion of packaged ice cream and shops is supported by national and spot TV advertising beginning this month, a first for the company. Full page, four-color ads will also begin appearing in national consumer magazines, and a consumer sampling effort will be launched with a goal of reaching—and impressing—one million consumers.

Coleon notes that the overall growth in foodservice frozen yogurt is finally leveling out, with the most growth now coming from sales of frozen yogurt in supermarkets and convenience stores.

continued on page 250

ICE CREAM & YOGURT

Some chains have expanded their niches by joint ventures with compatible concepts.

That's bad news for many frozen yogurt chains but good news for Häagen-Dazs.

"Häagen-Dazs shops are, in a sense, live billboards for us," says Coleon. At the shops, Häagen-Dazs ice cream is available in cones and cups, and customers are encouraged to create their own sundaes, splits, and ice cream bars. They create an ice cream bar, the customer chooses a vanilla, chocolate, coffee, or vanilla with caramel bar, which is then hand dipped in either dark or milk Belgian chocolate and covered with crunchy toppings.

Most Häagen-Dazs shops also offer custom-made ice cream cakes.

Internationally, shops are located in Japan, Singapore, Hong Kong, Germany, the United Kingdom, France, and Canada. The newest shops opened in Leicester Square in London and Place Victor Hugo in Paris.

West Bridgewater, MA-based D'Angelo Sandwich Shops/Chips Ice Cream has found a successful niche by combining an ice cream shop with a sandwich shop. As a result, unit volumes for the 68 shops with both ice cream and sandwiches averages over $650,000—higher than either most ice cream or sandwich shops.

D'Angelo's was started in 1967 as a sandwich shop. Later, the company became a franchisee of Lindenhurst, NY-based Steve's Ice Cream with the intention of opening combination shops to boost off-hour sales.

"We thought we could add sales without too much added expense," says William Suessbrick Jr., vice president of D'Angelo Franchise Inc., D'Angelo's franchising arm. Both the ice cream side and the sandwich side of the unit are staffed by the same crew, he explains.

When the popularity of frozen yogurt exploded, D'Angelo's decided to open its own concept, because Steve's doesn't serve frozen yogurt, says Suessbrick. Today, a hard-pack frozen yogurt accounts for 50% of Chips' sales. Chips accounts for up to 18% of the average combination shop.

Chips' ice cream flavors range from a candy bar ice cream to orange cream to vanilla fudge brownie. Frozen yogurt flavors include banana, cheesecake crunch, peach, and triple chocolate. Also available are sundaes, frappes, malted frappes, frappe floats, and ice cream floats.

A total of 142 D'Angelos are open, all in New England. A total of 111 are company-owned, with 31 franchised. The company recently began more aggressive franchising, with plans to eventually operate units from Albany, NY, to Virginia.

Burlington, VT-based Ben & Jerry's Homemade Inc. continues its quirky romp into the realm of big business. The counter-culture competitor, begun in a converted gas station in 1978, had sales of only $4 million in 1984. Sales have zoomed to $77 million in the year just ended, according to Lee Holden, the company's public relations coordinator.

The company was started by Ben Cohen and Jerry Greenfield, two ex-hippies. First, they sold ice cream and crêpes from the old gas station; then they found that only the ice cream sold well, and began selling their product to restaurants. After completion of a $3 million factory, Ben & Jerry's started selling through retail outlets up and down the East Coast. In 1988 came a franchising push, and today 90 scoop shops are open along both coasts. Ben & Jerry's has just announced that it is beginning construction of a third manufacturing facility in Vermont.

Ben & Jerry's specializes in a super-premium ice cream, with flavors ranging from chocolate chip cookie dough to chocolate raspberry swirl. Fifteen flavors are available through grocery stores, with another 20 flavors available only in the scoop shops. The shops also offer Peace Pops in five flavors (Heath Bar crunch, vanilla, New York super fudge chunk, Cherry Garcia, and Rain Forest Crunch).

In 1989, Ben & Jerry's put a moratorium on franchising, deciding to focus attention on existing stores. Since then, the only new units opened were opened by existing franchisees. The only exception has been a store in Baltimore run by an organization called People Encouraging People, which

continued on page 252

COOL COMPETITION

Segment chains face competition from the many restaurants serving frozen desserts. This is especially true for frozen yogurt, which enjoyed a substantial increase.

Among those restaurants that offer any type of dessert, the percentage serving:

	1987	1989
Hard Ice Cream	67.8%	68.3%
Soft Ice Cream	22.3%	20.9%
Ice Cream Novelties	15.5%	13.2%
Frozen Yogurt	5.6%	11.2%
Sorbet	6.0%	8.3%

SOURCE: RB Research, Dessert MenuMonitor

Many Everything Yogurt units operate in tandem with a concept called Bananas, which offers fresh fruit drinks.

Optimism abounds for players with differentiation.

hires developmentally disabled individuals and uses profits to sponsor their activities.

The philosophy of caring capitalism has marked Ben & Jerry's from the beginning, and permeates the organization. For example, the company has a policy of developing flavors using ingredients bought from a specific type of supplier. Chocolate fudge brownies are purchased from a baker in Yonkers, NY, run by a spiritual community that hires the disadvantaged and homeless and trains them. Berries for wild Maine blueberry ice cream come from the Passamodquoddy Indian tribe in Maine. And Rain Forest Crunch is made using nuts from the Amazonian rain forest, in order to encourage cash crops dependent on the preservation of the region. Last summer's fresh Georgia Peach ice cream was made from peaches bought only from family farms, and the company is working with Farm Aid to lobby Congress on farming issues to insure that small farmers receive a fair price for their products.

"We want to do business in a way that makes a positive impact on society," says Holden.

Such socially conscious capitalism seems to work for Ben & Jerry's, whose total sales increased by $19 million last year. "We have stockholders and we have to make sound business decisions in order to show a return," says Holden. "But it is also important for us to give something back."

For that reason, 7.5% of pre-tax profits go to the Ben & Jerry Foundation, which distributes grants nationally. Company-funded grants go to groups working on environmental issues, groups working with families and children, and groups working with the disadvantaged.

Scoop shop owners naturally share Ben & Jerry's philosophy, and tend to get involved in community activities. For example, one owner offered "a pint for a pint" program to encourage customers to donate pints of blood. Another donated a percentage from every sundae sold to a local drug rehabilitation organization.

WHAT'S IN STORE? As more and more people become acquainted with frozen yogurt, customer acceptance of what was once a cult food will, of course, grow. But the country's frozen yogurt chains aren't necessarily benefiting—at least not as much as might be presumed. All the major ice cream chains have added yogurt to their menus. And let's not forget about McDonald's foray into the market.

Optimism nonetheless abounds. The segment clearly has room for several major players, differentiated from each other by product quality and variety. As for ice cream operators, they've already been through the hard times. They're the wise old uncles to the frozen yogurt chains, rich with years of experience and stories to tell. Will some frozen yogurt chains diversify to the point that they're no longer primarily in the frozen yogurt business? Maybe, but others will persevere. As Zack's Ken White says, "You want to dance with the one who brought you." **RB**